

AUG 19 2011

STATE OF ARIZONA

DEPARTMENT OF INSURANCE

DEPT OF INSURANCE
BY 

In the Matter of)
)
 PMI MORTGAGE INSURANCE CO. and)
 PMI INSURANCE CO.)
 (NAIC Nos. 27251 and 10287))
 Respondents.)

Docket No. 11A-112-INS

**NOTICE OF DETERMINATION,
ORDER FOR SUPERVISION
AND NOTICE OF APPEAL RIGHTS**

The Arizona Department of Insurance (the "Department") has received evidence that PMI Mortgage Insurance Co. ("PMI") and PMI Insurance Co. ("PIC") are out of compliance with the provisions of Arizona Revised Statutes ("A.R.S.") Title 20, for the reasons set forth below, without limitation.

FINDINGS OF FACT

1. Respondents PMI and PIC are Arizona domiciled insurers and presently hold certificates of authority issued by the Department to transact mortgage guaranty insurance.

2. PMI is a direct wholly-owned subsidiary of The PMI Group, Inc. ("TPG"), a publicly-owned holding company, incorporated in Delaware and traded on the New York Stock Exchange. TPG is the ultimate parent of 11 mortgage guaranty insurers, six of which are Arizona domiciled. PIC is a direct wholly-owned subsidiary of PMI. PMI is the main operating entity for the group and operates in all fifty states.

3. PMI and PIC have been experiencing losses from their insurance operations since the inception of the U.S. financial crisis in 2007. The Department increased its monitoring of PMI and its affiliates since that time. Management of PMI attempted to recapitalize and mitigate the loss of surplus. Unfortunately, PMI's recent losses increased

1 rapidly and significantly as reported in its statutory financial statement for the period ended
2 June 30, 2011 ("June 30 Statement") filed with the Department on August 15, 2011.

3 4. In the June 30 Statement, PMI reported a net loss of \$329 million. Additionally, PMI
4 reported net incurred losses of \$574 million and net earned premiums of \$227 million resulting in a
5 loss ratio of 253%. The net loss and loss ratio constitute adverse findings under Arizona
6 Administrative Code ("A.A.C.") R20-6-308(A)(1).

7 5. A.R.S. § 20-1550 requires a mortgage guaranty insurer's policyholder position to
8 equal or exceed its minimum policyholder position ("MPP"). PMI's June 30 Statement reports that
9 PMI has a policyholder position of \$258 million and an MPP of \$578 million, resulting in a
10 policyholder position deficit of \$320 million. As of June 30, 2011, PIC's policyholder position was
11 also deficient by approximately \$45 million. These deficiencies constitute violations of A.R.S. § 20-
12 1550(A) and adverse findings under A.A.C. R20-6-308(A)(1) and (9).

13 6. On August 4, 2011, management of PMI requested the Department's approval to
14 make a capital contribution to PIC. PIC is principally engaged in the reinsurance of risks assumed
15 from PMI. The likelihood that PIC may require additional capital contributions in the future raises
16 concerns with respect to the viability of the reinsurance relationship and ultimate collectability of
17 amounts due from PIC, and is an adverse finding under A.A.C. R20-6-308(A)(1), (8), and (9).

18 **CONCLUSIONS OF LAW**

- 19 1. The Director of the Department ("Director") has jurisdiction over this matter.
- 20 2. Respondents PMI and PIC violated A.R.S. § 20-1550 and A.A.C. R20-6-308.
- 21 3. Respondents PMI and PIC failed to comply with A.R.S. § 20-1550 and are in
22 unsound financial condition or in such condition as to render its further transaction of insurance
23

1 in this state hazardous to the policyholders or to the people of this state within the meaning of
2 A.A.C. R20-6-308.

3 4. Grounds exist for the Director to place the Respondents under supervision of the
4 Department in accordance with A.R.S. § 20-169, and to take action pursuant to A.R.S. § 20-
5 1550(G) and A.A.C. R20-6-308(C).

6 **THEREFORE, IT IS ORDERED:**

7 1. Respondents are hereby notified of the determination of the Director to place
8 Respondents under the supervision of the Department in accordance with A.R.S. § 20-169.

9 2. Respondents are hereby under the supervision of the Director and the Director is
10 applying and effectuating the provisions of A.R.S. Title 20, Chapter 1, Article 2 pursuant to
11 A.R.S. § 20-169(3).

12 3. Unless otherwise approved by the Director or her Supervisor, Respondents (i)
13 shall cease issuing new mortgage insurance commitments effective as of the close of business
14 on August 19, 2011, and (ii) may issue mortgage insurance policies under pending
15 commitments through the close of business on September 16, 2011.

16 4. Respondents shall cease making (i) interest payments on surplus notes to
17 affiliates, or (ii) except as otherwise approved by the Director or her Supervisor, any payments
18 under its capital support agreements with affiliates.

19 5. Pursuant to A.R.S. § 20-170, the Director hereby appoints Truitte D. Todd, of
20 Tharp and Associates, as Supervisor of Respondents.

21 6. Pursuant to A.R.S. § 20-170, the Director orders that Respondents, during the
22 period of Supervision, may not do any of the following things without the prior approval of the
23 Director or her Supervisor:

- 1 a. Dispose of, convey or encumber any of its assets or its business in force except
2 in the ordinary course of business,
3 b. Withdraw any of its bank accounts except in the ordinary course of business;
4 c. Lend any of its funds;
5 d. Invest any of its funds except in the ordinary course of business;
6 e. Transfer any of its property except in the ordinary course of business;
7 f. Incur any debt, obligation or liability except in the ordinary course of business;
8 g. Merge or consolidate with another company;
9 h. Enter into any new reinsurance contract or treaty
10 i. Pay any dividends; or
11 j. Enter into any affiliate transactions.

12 7. In order to abate the Director's determination Respondents PMI and PIC shall
13 provide the Department with a plan satisfactory to the Department that cures the deficiencies
14 noted in the Findings of Fact.

15 8. If Respondents fail to satisfy the requirements to abate the Director's
16 determination within sixty (60) days from the date hereof, the Director may take appropriate
17 action including but not limited to commencing a conservatorship pursuant to A.R.S. § 20-171.

18 9. Pursuant to A.R.S. § 20-171(C), the costs incident to the services of the Director,
19 or his Supervisor, or both, shall be charged against the assets and funds of Respondents and
20 shall be paid when fixed and determined by the Director.

21 DATED this 19th day of August, 2011.

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23 _____
CHRISTINA URIAS
Director of Insurance

1 **NOTICE OF APPEAL RIGHTS**

2 This determination is an appealable agency action. A.R.S. §41-1092(3). You have the right to
3 ask for a hearing on this determination by filing a request for hearing within **30 days** after you
4 receive this notice. If we receive your request for hearing **after** the 30-day period, we will not
5 accept it unless you can show that you had good cause to file it late.

6 Your request for hearing must include the following:

- 7 • the party appealing our decision;
- 8 • the party's address;
- 9 • the decision you are appealing or contesting; and
- a concise statement of the reason(s) for the hearing

10 The Office of Administrative Hearings will hold your hearing within 60 days after we receive
11 your request unless: 1) a party can show good cause to advance or delay the hearing; or 2)
12 the parties agree to advance or delay the hearing. We will send you a "Notice of Hearing" at
13 least 30 days before the hearing, which will tell you the date, time and location of the hearing
as well as the issues that the hearing will address and/or resolve.

14 If you request a hearing, you may also request an "informal settlement conference" by filing a
15 written request with us. A.R.S. 41-1092.06. You may request an informal settlement
16 conference at any time but **not later than 20** days before the scheduled hearing. We will hold
17 the conference at our office within 15 days after we receive your written request. We will have
18 a person with the authority to act on behalf of the Department present. If we do not settle the
19 case, please note that you waive all objections to our representative participating in the final
administrative decision of your matter.

20 You must address your hearing request or informal settlement conference request to:

21 Deputy Director
22 Arizona Department of Insurance
23 2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7256
Attn: Hearing Administration

1 COPY of the foregoing mailed/mailed
this 19th day of August, 2011, to:

2
3 Andrew D. Cameron
Executive Vice President, General Counsel & Secretary
4 The PMI Group, Inc.
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Curvey Walters Burton